



September 5, 2018

The Honorable Jack Brandenburg
State Senator
201 Townsend Street
Suite #7500
Lansing, Michigan 48933

Subject: Decoupling from Internal Revenue Code §163(j)

Dear Senator Brandenburg:

On behalf of Magna International (Magna), we urge Michigan to decouple from the new interest expense deductibility limitations under Internal Revenue Code (IRC) §163(j).

Magna is a leading global automotive supplier with 339 manufacturing operations and 89 product development, engineering and sales centers and over 173,000 employees. In Michigan, Magna has 24 manufacturing operations and 12 sales and research centers and employs more than 10,350 people. Since 2009, Magna has invested more than \$660 million in Michigan, and in 2017 Magna purchased more than \$2.9 billion in goods and services from 636 Michigan based businesses.

The ability to deduct interest as an ordinary and necessary business expense is a longstanding principle of U.S. tax policy that reduces the cost of capital, which helps encourage investment and expansion. For international companies like Magna, having more capital translates into building new facilities in the United States or acquiring new assets to further grow in the automotive market. However, if Michigan fails to decouple from IRC §163(j), the state would limit interest deductibility, which would raise the cost of capital and increase taxes on Michigan employers.

Interest deductibility was limited, to a large extent, by the new federal tax law to help pay for a 40 percent corporate income tax rate reduction and move to immediate expensing – two clear policy objectives to make the United States more competitive. However, Michigan currently decouples from federal bonus depreciation rules under IRC §168(k) and there is no plan to lower the rate in return for tighter interest limitations. For these reasons alone, conforming to IRC §163(j) would amount to a tax increase and misalign with Congress's intent to link interest deductibility limitations to a lower rate and immediate expensing.

To date, Georgia, Indiana, Wisconsin, and Tennessee¹ have decoupled from IRC §163(j). Magna urges Michigan to join these states and pass legislation that includes vital decoupling provisions for international investment. This legislation would further reaffirm Michigan's widely-recognized reputation as a state that aligns its tax policies with international norms, keeping the state competitive for international investment.

Michigan is a leader in attracting international investment. Decoupling from IRC §163(j) is essential to ensuring Michigan maintains its competitive edge.

¹ Tennessee will decouple from the new 163(j) for tax years beginning on or after January 1, 2020.

We hope that you will support international investment in Michigan and the 238,000 Michiganders employed by international companies.

Sincerely,

A handwritten signature in cursive script, appearing to read "Misti Rice".

Misti Rice
Director of Government Affairs
Magna International Inc.
750 Tower Drive
Troy, Michigan 48098